

## Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

Odin Telephone Exchange, Inc.

(ICC Docket Nos. 00-0233 & 0335 Consolidated)

April 20, 2001

OFFICIAL FILE

ILL. C. C. Docket Nos. 00-0233/0335  
*Odin Telephone Exchange, Inc.*  
Exhibit 1.0  
Case 6-19-01 Rejected CB

1   **Q.   PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2   A.   My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,  
3       Inc. GVNW Consulting, Inc.'s principal business is telecommunications  
4       consulting for small independent telephone companies. My business address is  
5       3220 Pleasant Run, Springfield, Illinois 62707.

6

7   **Q.   PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8   A.   I joined GVNW, Inc. on October 20, 1997. In my current position I consult with  
9       independent telephone companies and provide financial analysis and management  
10      advice in areas of concern to these companies. Specific activities include  
11      regulatory analysis, consultation on regulatory policy, financial analysis, market  
12      analysis, rate design and tariff development, long-range strategic planning and  
13      general management consulting services. Previously, I was employed by TDS  
14      TELECOM, as Manager of Revenue and Earnings in the Government and  
15      Regulatory Affairs Group, where my responsibilities were to manage the revenue  
16      and earnings processes, manage the development and implementation of earnings  
17      strategies, and oversee rate cases, regulatory audits, and earnings reviews for the  
18      TDS TELECOM companies. I also assisted in the regulatory review of telephone  
19      company operating and capital budgets, and ensuring that capital recovery  
20      objectives were achieved for TDS TELECOM operating companies.

21

22      In 1988, I began my telecommunications career with TDS, Inc., as an Internal  
23      Auditor. In this position, I conducted both operational and financial reviews of  
24      TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal  
25      Auditor where I took a more active role in managing internal audits for the  
26      company. In 1994, I was promoted to Associate Manager of Accounting in TDS

1 TELECOM. My responsibilities included providing management with monthly  
2 reports on company financial results, troubleshooting and providing support to the  
3 region accounting staffs and helping determine accounting policy and procedures.  
4 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings  
5 in the Government and Regulatory Affairs Group.  
6

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science  
9 Degree in Business with an emphasis in Accounting. I was awarded a Masters in  
10 Business Administration from Edgewood College in 1991.  
11

12 **Q. HAVE YOU TESTIFIED BEFORE?**

13 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate  
14 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango  
15 Telephone Company. I have also put in testimony on behalf of Citizens of  
16 Kecksburg also in Pennsylvania in a rural exemption case.  
17

18 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

19  
20 A. Odin Telephone Exchange.  
21

22 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**  
23 **CALCULATIONS FOR ODIN TELEPHONE EXCHANGE USING THE**  
24 **FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**  
25 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**  
26 **SUPERVISION?**  
27

28 A. Yes it has. It is attached as Odin Telephone Exchange Exhibit 1.0, Schedule 1.01  
29 and consists of three pages.

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**Q. DID YOU COMPLETE ODIN TELEPHONE EXCHANGE'S EXHIBIT 1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE INSTRUCTIONS AND BASED ON ODIN TELEPHONE EXCHANGE'S ICC FORM 23A OR OTHER INFORMATION FILED BY THE COMPANY WITH THE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2000?**

**A.** Yes, Odin Telephone Exchange's Exhibit 1.0 was based on the ICC Form 23A filed with the Commission.

**Q. BASED ON THE RESPONSES AND CONTENT OF ODIN TELEPHONE EXCHANGE EXHIBIT 1.0, SCHEDULE 1.01, IS ODIN TELEPHONE EXCHANGE PROVIDING STAFF WITH CERTAIN ADDITIONAL DOCUMENTS?**

**A.** Yes. I am providing the Staff with a copy of Odin Telephone Exchange's December 31, 2000, Trial Balance. I am also providing staff with a copy of the lease agreements that Odin has with affiliates. Odin has two lease agreements for which we are providing contracts. Odin has a contract with MJD Communications for a building that they own and a lease agreement with MJD Capital Corporation for a boring machine.

**Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM ODIN TELEPHONE EXCHANGE EXHIBIT 1.0, SCHEDULE 1.01 TO MR. SCHOONMAKER FOR HIS USE IN COMPILING THE COMPOSITE RESULTS FOR ALL COMPANIES SEEKING FUNDING IN CONNECTION WITH HIS TESTIMONY?**

**A.** Yes, I have.

1 **Q. IS ODIN TELEPHONE EXCHANGE EXHIBIT 1.0, SCHEDULE 1.01**  
2 **TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**  
3 **INFORMATION AND BELIEF?**

4  
5 A. Yes, it is.  
6

7 **Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT**  
8 **HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?**

9  
10 A. Yes, I have.  
11

12 **Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE**  
13 **MADE TO ODIN TELEPHONE EXCHANGE.**

14  
15 A. I have made one (1) standard adjustment on Odin Telephone Exchange's Exhibit  
16 1.0. This adjustment is summarized in Schedule 1.02.  
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18 The adjustment that was made was for a decrease in Federal High Cost Loop  
19 (HCL) Revenues that Odin is currently receiving in 2001. This is listed as  
20 standard adjustment #5 in Bob Schoonmaker's testimony. Odin received  
21 \$383,418 in Federal HCL funding in 2000 per information that appears on  
22 quarterly filings that the Universal Service Administration Corporation (USAC)  
23 made with Federal Communication Commission. Per these same filings for the  
24 first two quarters of 2001 annualized, Odin is receiving \$339,246. This results in  
25 a decrease in Federal funding of \$44,172 and is a known and measurable decrease  
26 in Odin's revenue streams.  
27

28 **Q. HAVE YOU MADE ANY OF NON STANDARD ADJUSTMENTS THAT**  
29 **WERE NOT AGREED UPON BETWEEN THE IITA AND STAFF?**  
30

1   A.    Yes, I have.

2

3   **Q.    PLEASE DESCRIBE EACH OF THE NON-STANDARD ADJUSTMENTS**  
4   **THAT YOU HAVE MADE TO ODIN TELEPHONE EXCHANGE.**

5

6   A.    I have made two (2) non-standard adjustments on Odin Telephone Exchange's  
7   Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

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9       Both of the non-standard adjustments are to remove non-regulated items  
10   appearing in Odin Telephone Exchange's ICC Form 23A filed with the  
11   Commission. The first adjustment removes \$11,631 of non-regulated revenues  
12   from Odin's Exhibit 1.0, Line 14, Total Operating Revenues. The second  
13   adjustment removes \$7,250 of non-regulated expenses from Odin's Exhibit 1.0,  
14   Line 7 and Line 17, Total Operating Expenses.

15

16   **Q.    DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**  
17   **OF ODIN TELEPHONE EXCHANGE?**

18

19   A.    Yes, it does.

20

21

Odin Telephone Exchange, Inc.  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,421,077	\$ -	\$ 1,421,077
2	Materials and Supplies Inventory	Page 2, 13-Month Average	11,089		11,089
3	Customer Deposits	Form 23A, P 8, 4040	10,700	-	10,700
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	181,343	-	181,343
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,240,123
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	1,495,037	(7,250)	1,487,787
8	Less: Depreciation Expense	Form 23A, P 13, 6560	191,949	-	191,949
9	Total WC Operating Expense	line 7 - line 8	1,303,088	(7,250)	1,295,838
10	WC OE Requirement	line 9 * 45 / 360			161,980
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			161,980
13	Total Rate Base	line 5 + line 12			1,402,103
14	Total Operating Revenues	Form 23A, P 11, Total	2,106,894	(55,803)	2,051,091
15	Less: Illinois High Cost Fund		350,985	-	350,985
16	Net Operating Revenues	line 14 - line 15	1,755,909	(55,803)	1,700,106
17	Total Operating Expenses	Form 23A, P 14, Total	1,495,037	(7,250)	1,487,787
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	6,848	-	6,848
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	254,024	(48,553)	205,471
21	Income Tax Expense	line 34			79,597
22	Net Operating Income	line 20 - line 21			125,874
23	Return on Rate Base	line 22 / line 13			8.98%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			157,176
26	Adj to Achieve Target Return on RB	line 25 - line 22			31,302
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			51,097
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			205,471
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			14,753
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			190,718
33	Federal Income Tax Expense	line 32 * 34.00%			64,844
34	Total Imputed Income Tax Expense	line 31 + line 33			79,597
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Odin Telephone Exchange, Inc.  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Material & Supplies Worksheet and Other Information

Line #		
1	December-99	\$9,741
2	January-00	\$9,741
3	February-00	\$9,741
4	March-00	\$9,741
5	April-00	\$10,394
6	May-00	\$10,281
7	June-00	\$10,241
8	July-00	\$12,553
9	August-00	\$11,928
10	September-00	\$11,903
11	October-00	\$15,081
12	November-00	\$11,701
13	December-00	\$11,110
14	13 Month Average	\$11,089

Sale/Lease Back Arrangement

- ☒ The company does not have any sale(s)/lease back arrangement.  
☐ The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

- ☐ The company does not have any lease agreements with affiliates.  
☒ The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.



Odin Telephone Exchange, Inc.  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 134,837
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 172,210
3	State Access Revenues	Trial Balance 12/31/00	\$ 357,962
4	State High Cost Support	Exhibit X, Line 15	\$ 350,985
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 16,269
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 1,032,263
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 51,085
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 351,994
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 562,610
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 9,075
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 974,764
12	Misc Revenues	Trial Balance 12/31/00	\$ 99,864
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 2,106,891</u>

Odin Telephone Exchange, Inc.  
Summary of Adjustments

		Dr.	Cr.
Adjustment 5			
2001 HCL Fund Draw	\$ 339,246		
2000 HCL Fund Draw	\$ 383,418		
Increase in HCL funds	\$ (44,172)		
Universal Service Adjustments		44,172	
Adjustment to record decrease in Federal High Cost Loop Fund.			
Adjustment 6			
Total Revenues		11,631	
Total Expenses			7,250
To adjust out non-regulated revenues and expenses			